

## Medicines Company shows that there's money in antibiotics after all



Jacob Plieth

When you've already turned \$1.1bn of investors' cash into \$300m, what's another \$240m between friends? This seems to be the latest bet being made by Melinta as it asks its backers to draw a line under 15 years of disappointments, and in Deerfield Capital the group has found a ready source of cash.

The funds will allow Melinta to take three antibiotic drugs off The Medicines Company's hands, enabling the larger group at last to focus on the PCSK9 inhibitor inclisiran. It probably does not need spelling out how difficult a business antibiotics is, but at least the acquiring company's mission is clear for all to see.

That mission entails becoming a pure-play antibiotics specialist, focused at present on the recently approved bacterial infection drug Baxdela, which has yet to be launched, and solithromycin, an antibiotic hit with a US complete-response letter, whose future now hangs on the remote prospects of a trial in at least 6,000 patients.

These two assets will now be joined by three marketed Medicines Company infectious disease drugs: Vabomere, launched just this year, Orbactiv and Minocin IV.

Melinta claims that this portfolio has a combined sales potential of over \$1bn, though if sellside consensus compiled by *EvaluatePharma* is anything to go by this will take some time to achieve, and only Vabomere carries serious forecasts.

### What Melinta has bought from The Medicines Company

Drug	Active ingredient(s)	Mechanism	2022e sales (\$m)
Vabomere	Vaborbactam + meropenem	Carbapenem & beta-lactamase inhibitor	315
Orbactiv	Oritavancin	Glycopeptide	64
Minocin IV	Minocycline	Tetracycline	8

Source: *EvaluatePharma*.

How Melinta has managed to raise the cash to bring about this purchase should not be ignored. The company has [only recently been merged into Cempra](#), after the two groups had jointly burned through nearly \$1bn of investor cash with little to show for it ([Cempra and Melinta's lesson in value destruction, August 10, 2017](#)).

The latest answer is simply to raise \$240m more - in debt, courtesy of Deerfield. The first six-year tranche, of \$190m, carries interest of 11.75%, an extraordinary amount given that US interest rates currently stand at just over 1%.

Given such economics, perhaps it is Deerfield that stands to gain the most; debt providers have increasingly been turning to high-risk biotech in their search for a decent return. And Deerfield will also be owed a low single-digit royalty on Vabomere sales, Melinta said on an investor call.

### Immediate cash

The [somewhat complex transaction](#) with The Medicines Company entails \$165m of immediate cash, \$55m in Melinta stock, and another \$50m cash amount within 18 months. The most important element of Melinta's future obligation is a 5-25% royalty on Vabomere sales, though the highest tier only kicks in at the optimistic level of \$500m of annual revenue.

Melinta closed up 1% yesterday, with a market cap of just over \$300m, reflecting enthusiasm that it had got a good price; The Medicines Company had actually bought the three drugs, via Targanta and Rempex, for over \$500m, but more recently has turned all its attention to developing the RNA interference project inclisiran.

For its part The Medicines Company stock ended the day flat, after initially falling 6%. The sellside worked hard to defend the deal price, though Leerink admitted that the transaction would be seen by the markets as a rerating of the value of infectious disease assets.

While there clearly exists a huge need for novel antibiotics, the lack of a payment strategy to reflect the fact that many of these would be stockpiled for emergency use has resulted in questions over this sector's economic potential.

Among competing groups, Paratek and Achaogen have celebrated late-stage clinical successes with no reward on the partnering front, while Nabriva's pivotal data were greeted by market indifference. All three groups fell yesterday, by 6%, 8% and 4% respectively, as the new reality set in.

Bizarrely, Leerink referred to the Melinta deal as "Cubist 2.0". True, in Cubicin the industry has one of its few antibiotic success stories, but Merck & Co's \$9.5bn takeover of its originator, Cubist, turned into a nightmare when Cubicin lost its patent shortly afterwards.

While there is much less at stake for Melinta, the company will find the antibiotics market a tough nut to crack.

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